
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
MINUTES OF MEETING
June 21, 2006

A meeting of the Board of Administration was held on Wednesday, June 21, 2006, CalPERS Auditorium, Lincoln Plaza North, 400 Q Street, Sacramento, California.

Board President Rob Fecker called the meeting to order at 9:08 a.m.

The Secretary called the roll and the following Board members were present:

Rob Feckner, President
Robert Carlson, Vice President
James Zerio representing Philip Angelides
Marjorie Berte
George Diehr
Priya Mathur
Debbie Endsley representing Michael Navarro
Tony Oliveira
Kurato Shimada
Maeley Tom
Charles Valdes
Cindy Aronberg representing Steve Westly

Michael Quevedo, excused

AGENDA ITEM 3 – ANNOUNCEMENT OF CLOSED SESSION

President Feckner announced there will be no closed session.

AGENDA ITEM 4 – APPROVAL OF THE MAY 17, 2006 MEETING MINUTES

ON MOTION by Mr. Shimada, **SECONDED** and **CARRIED**, the Board approved the May 17, 2006 meeting minutes.

AGENDA ITEM 5 – CHIEF INVESTMENT OFFICER'S/ASSISTANT EXECUTIVE OFFICER'S REPORT

Russell Read, Chief Investment Officer presented this report to the Board.

Reporting for the month of May, the key market news centered on the initiatives of the Federal Reserve Board. The Federal government is becoming increasingly concerned of the seepage of inflation from the edges of economy, energy in particular, into the core part of the economy. The increase in price into other goods has caused the Federal government to be concerned about inflation in the US economy. A similar action throughout Asia and Europe is cause for the European Central Bank and Japan Bank to lean towards increasing interest rates. A significant correction

within the equity markets occurred and led to an overall decline in CalPERS fund of 2.2% and a total asset figure at the end of May of \$205.9 billion.

The fiscal year to date returns at the end of May were about 12%, and the calendar year to date returns were positive 4%. CalPERS is positive with respect to the equity markets going forward and neutral on fixed income markets. Emerging markets, alternative investments, and real estate remain strong performers.

AGENDA ITEM 6 – INVESTMENT COMMITTEE

Charles Valdes, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, June 19, 2006.

Additional information may be found in June 19, 2006 agenda materials and/or transcripts of the Committee meeting.

The Board accepted the Committee Summary report (attached).

The next Committee meeting is scheduled for August 14, 2006 in Sacramento, California.

AGENDA ITEM 7 – BENEFIT AND PROGRAM ADMINISTRATION COMMITTEE

Kurato Shimada, Chair, Benefit and Program Administration Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, June 20, 2006.

Additional information may be found in the June 20, 2006 agenda materials and/or transcripts of the Committee meeting.

On motions by the Committee, the Board approved the following:

- ◆ Neutral position on AB 2355. Marjorie Berte voted no.
- ◆ Support position on AB 2632. Debbie Endsley abstained.
- ◆ Neutral position on SB 1443. Debbie Endsley voted no.
- ◆ EFI's report on the parallel valuation and certification of the actuarial valuation of the Judges' Retirement System in completion of Task 3 of Contract 2003-3236.
- ◆ EFI's report on the June 30, 2004 parallel valuation and certification of the actuarial valuation of the Judges' Retirement System II in completion of Task 3 of Contract 2003-3236.
- ◆ EFI's report on the parallel valuation and certification of the actuarial valuation of Legislators' Retirement System in completion of Task 3 of Contract 2003-3236. James Zerio abstained.
- ◆ EFI's report on the June 30, 2004 parallel valuation and certification of the actuarial valuation of the Volunteer Firefighters' Length of Service Award System in completion of Task 3 of Contract 2003-3236.

The next Committee meeting is scheduled for August 15, 2006 in Sacramento, California.

AGENDA ITEM 8 – HEALTH COMMITTEE

George Diehr, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, June 20, 2006.

Additional information may be found in the June 20, 2006 agenda materials and/or transcripts of the Committee meeting.

On motions by the Committee, the Board approved the following:

- ◆ Neutral position on AB 2667 with suggested amendments.
- ◆ CalPERS sponsor legislation to provide specific authority to the CalPERS Board to offer a pre funding plan to public entities that do not participate in PEMHCA and to make other statutory changes regarding the administration of the pre funding plan.
- ◆ Blue Shield, Kaiser and Western Health Advantage basic plans do not increase office visit copayments to \$15; do not introduce a copayment of \$100 per hospital inpatient admission; do not introduce an ambulatory surgery copayment of \$25; and PERS Choice basic plan and PERS Select basic plan do not introduce a copayment of \$100 per hospital inpatient admission. Marjorie Berte and Debbie Endsley voted no.
- ◆ Blue Shield, Kaiser and Western Health Advantage basic plans do not increase emergency room copayments to \$75, waived if admitted as an inpatient or for observation as an outpatient. Marjorie Berte, Debbie Endsley, James Zerio voted no.
- ◆ PERS Choice basic plans, PERSCare basic plan and PERS Select basic plan do not increase emergency room copayments to \$75, waived if admitted as inpatient or for observation as an outpatient. Marjorie Berte, Debbie Endsley, James Zerio voted no.
- ◆ PERS Choice basic plans, PERSCare basic plan and PERS Select basic plan do expand and promote an urgent care network.
- ◆ PERS Choice basic plans, PERSCare basic plan and PERS Select basic plan do establish an imaging pre authorization process. James Zerio voted no.
- ◆ Three-year contract renewal with Blue Shield of California, effective January 1, 2007.
- ◆ For 2007, CalPERS apply for the Retiree Drug Subsidy consistent with the Board's application regarding Medicare Part D for calendar year 2006. James Zerio abstained.
- ◆ 2007 health maintenance organization plans state and regional rates as set forth in Attachment 1. James Zerio voted no.
- ◆ 2007 self-funded health plans state and regional rates as set forth in Attachment 2. James Zerio voted no.
- ◆ 2007 association plan rates and benefit modifications as set forth in Attachment 3, modified by Mr. Smalley of CCPOA. James Zerio voted no.
- ◆ Forward the list of eligible ZIP codes as set forth in the agenda item to the Department of Personnel Administration (DPA) for use in administering its Rural Health Care Equity Program and grant staff the authority to notify DPA of changes to the Board approved ZIP code list throughout the 2007 plan year.

Four people from the audience addressed the Board:

Yvonne Walker, Vice President, Bargaining SCIU Local 1000

Michael Smalley, Association of CA State Supervisors

Mitchell Semer, CCPOA Benefits Trust Fund

Ann McWherter, Health Benefit Director, RPEA

The next Committee meeting is scheduled for August 15, 2006 in Sacramento, California.

AGENDA ITEM 9 – FINANCE COMMITTEE

Robert Carlson, Chair, Finance Committee, presented the Committee Summary report to the Board. The Committee met on Friday, June 16, 2006

Additional information may be found in the June 16, 2006 agenda materials and/or transcripts of the Committee meeting.

On motions by the Committee, the Board approved the following:

- ◆ Adoption of the Biennial Audit Plan for fiscal years 2006-07 and 2007-08.
- ◆ Second reading of the CalPERS Three Year Business Plan 2006-07 through 2008-09, with the exception of objectives 11.1, 11.2, and 12.3, which will be brought back to the Committee after modifications for final approval at the September 2006 Finance Committee meeting.
- ◆ Transmittal letter and submission of the Budget and Expenditure Report through the third quarter of fiscal year 2005-06 to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2005, and to the Legislative Analyst's Office, State and Consumer Services Agency and the Office of the Legislative Counsel.

The next Committee meeting is scheduled for September 8, 2006 in Sacramento, California.

AGENDA ITEM 10 – PERFORMANCE AND COMPENSATION COMMITTEE

Priya Mathur, Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Friday, June 16, 2006.

Additional information may be found in the June 16, 2006 agenda materials and/or transcripts of the Committee meeting.

On motions by the Committee, the Board approved the following:

- ◆ Third quarter status report on the performance plan of the Chief Executive Officer.
- ◆ First reading of the performance plans of the Chief Investment Officer and Senior Investment Officers of Alternative Investments, Asset Allocation/Risk Management, Fixed Income, and Global Equities.
- ◆ First reading of the performance plans for the Senior Portfolio Managers and Portfolio Managers.

The next Committee meeting is scheduled for August 11, 2006 in Sacramento, California.

AGENDA ITEM 11 – AD HOC BOARD GOVERNANCE COMMITTEE

Rob Feckner, Chair, reported the Committee did not meet.

AGENDA ITEM 12– BOARD MEETING CALENDAR

Fred Buenrostro reported the meeting calendar was submitted. Of note is the Board offsite, July 24 through 26 at Rohnert Park. The majority of the offsite agenda will be in closed session and letters will be sent to all stakeholders informing them which items are in open and closed. The Board calendar will be revised to show the September CII meeting in Washington DC and the October Board meetings to be held in Northern California.

AGENDA ITEM 13 – CHIEF EXECUTIVE OFFICER’S REPORT

Mr. Buenrostro announced the hire of John Hiber as Assistant Executive Officer over Administrative Services. He fills the position vacated by Curtis Howard. Kayla Gillan, former CalPERS General Counsel has been reappointed to the Public Company Accounting Oversight Board. May 20, CalPERS hosted a family day and more than 300 employees and their families attended to celebrate the official opening of the new headquarters complex.

AGENDA ITEM 14 – BOARD’S STATE LEGISLATIVE PROGRAM/BOARD’S POSITION ON STATE LEGISLATION

Danny Brown, CalPERS staff, reported that SB 1263, income tax deduction for long term care, and AB 2795, reciprocity bill that would have extended the period of reciprocity from 16 to 18 months did not meet their legislative deadlines and died.

AGENDA ITEM 15– BOARD’S FEDERAL LEGISLATIVE PROGRAM/BOARD’S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS federal lobbyist, reported on the following:

- ◆ Participated in a hearing of the House Financial Services Committee with regards to executive compensation legislation.
- ◆ Continue to work with Congressman Frank’s Office and with California Members of the House Financial Services Committee to move forward with a markup in Committee before the end of the current Congress.
- ◆ Continue to work with staff of Senator Boxer with filing the companion piece of executive compensation legislation in the Senate.
- ◆ Senate passed the Health IT legislation; the House has been reluctant to take it up. The legislation will be delayed until next week, possibly longer. A number of amendments were offered by the California members that relate directly to improving the quality of the legislation.
- ◆ Working very closely with partners in the Health Care Roundtable with the Federal Trade Commission.
- ◆ Sudan – met with 13 of the 14 members of the California delegation. Meetings are being well received.
- ◆ Pension legislation
- ◆ Federal taxation of retirees death benefit program – continuing to look for opportunities. On request through the President Feckner, proposed by Mr. Carlson, develop an explicit statement of CalPERS’ position on federal taxation of death benefits.

AGENDA ITEM 16 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

ON MOTION by Ms. Mathur, **SECONDED** and **CARRIED**, the Board adopted staff's recommendations on items 16A through 16E, with the amendment to D to include a legislative counsel opinion.

AGENDA ITEM 17 – PETITIONS FOR RECONSIDERATION

ON MOTION by Ms. Berte, **SECONDED** and **CARRIED** the Board adopted staff's recommendation on item 17A and 17B.

One person addressed the Board from the audience:
Noel Shumway, General Counsel, School and College Level Services of California

AGENDA ITEM 18 – GENERAL COUNSEL'S REPORT

Mr. Mixon noted the monthly case report and assignment matrix submitted. No new cases to report. A Board/Executive Fiduciary Workshop is planned for August. A lawsuit has been brought against the PCAOB, the organization set up by Sarbanes-Oxley to create and enforce accounting standards that assist investors in making informed decisions. The Legal Office is monitoring the lawsuit closely.

AGENDA ITEM 19 – BOARD TRAVEL APPROVALS

ON MOTION by Mr. Carlson, **SECONDED** and **CARRIED**, the Board approved the travel requests. James Zerio voted no.

AGENDA ITEM 20 – DRAFT AGENDA FOR AUGUST 16, 2006 MEETING

The Board accepted the draft agenda.

There being nothing further to come before the Board of Administration, the meeting adjourned at 10:28 a.m.